

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

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R 101117Z OCT 75

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 1685

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

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E.O. 11652: N/A

TAGS: EFIN, IN

SUBJ: DOUBLE TAXATION AGREEMENT

DEPARTMENT PASS TREASURY FOR NATE GORDON

1. EMBASSY AND CONGEN HAVE REVIEWED LOCAL US BUSINESS REACTIONS TO PROPOSED DOUBLE TAXATION AGREEMENT. WHILE LOCAL EXPERTISE ON TAXATION MATTERS IS LIMITED MOST SEEM TO FEEL THAT PROVISIONS ON SUCH ISSUES AS HEAD OFFICE EXPENSES AND ROYALTY PAYMENTS WOULD BE BENEFICIAL. THEY, AND WE, ARE EXTREMELY DOUBTFUL THAT SUCH PROVISIONS WILL PROVE TO BE ACCEPTABLE TO GOI SINCE ACCEPTANCE OF SUCH PROVISIONS WOULD REPRESENT A DIRECT REVERSAL OF CURRENT POLICIES.

2. RESIDENT US BUSINESSMEN ARE EXTREMELY CONCERNED ABOUT PROVISIONS IN PROPOSED TREATY RELATING TO EXCHANGE OF PERSONAL INCOME TAX INFORMATION. BUSINESSMEN ARE UNANIMOUS THAT IT WOULD BE IMPOSSIBLE TO STATION FOREIGN PERSONNEL IN INDIA UNDER EXISTING INDIAN TAX REGULATIONS IF THEIR ENTIRE
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SALARIES WERE TO BE REPORTED AND TAXED IN INDIA.

3. COMMENT: AS DEPARTMENT AND TREASURY IS AWARE, WE HAVE BEEN EXTREMELY DUBIOUS ABOUT THE REAL CHANCES OF AN EFFECTIVE DOUBLE TAXATION AGREEMENT WITH INDIA. IF THE INDIANS ARE PREPARED TO ACCEPTAN AGREEMENT ALONG THE LINES OF THE DRAFT KOREAN AGREEMENT, THIS WOULD BE A MAJOR STEP FORWARD THOUGH WE DO NOT UNDERESTIMATE THE HARDSHIPS IT MIGHT CAUSE TO RESIDENT US BUSINESSMEN. IF THE INDIANS ATTEMPT TO NEGOTIATE AN AGREEMENT WITHOUT PROVISIONS WITH DIRECT BENEFIT TO US FIRMS WHILE STILL RETAINING PROVISIONS RELATING TO PERSONAL TAX INCOME, WE RECOMMEND THE NEGOTIATIONS BE SUSPENDED. WE STILL HOPE THAT IT WOULD BE POSSIBLE TO NEGOTIATE A RESOLUTION OF THE AVIATION TAXATION PROBLEM.

4. FINATT WILL BE CARRYING SOME LOCAL COMMENTS ON INDIVIDUAL PROVISIONS.
SCHNEIDER

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